

CITY AUDITOR'S OFFICE



SPECIAL REPORT UNANNOUNCED PETTY CASH COUNTS

Report No. CAO 2200-0203-06

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CITY AUDITOR

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BACKGROUND

City departments have varying amounts of petty cash funds (also known as imprest funds) totaling approximately \$9,000 for incidental departmental expenditures. These funds are replenished as needed by the departments through the City Treasurer's Office. Over \$96,000 and \$102,000 in expenditures were made from these petty cash funds during fiscal years 2001 and 2002, respectively. The City Treasurer's Office oversees the administration of the petty cash system including the authorization, issuance, replenishment, and tracking of petty cash funds.

OBJECTIVES

Our objectives included the following:

- Reviewing the City's petty cash policies and procedures.
- Verifying the accuracy of the City Treasurer's Office petty cash records through unannounced cash counts.
- Identifying any weaknesses surrounding the safekeeping of these funds.

SCOPE AND METHODOLOGY

Our work was performed in accordance with applicable generally accepted governmental auditing standards. The scope of the study of internal control was limited to assessing the general controls surrounding the specific issues addressed. General procedures included:

- Interviewing personnel;
- Counting cash;
- Observing controls surrounding cash; and
- Reviewing records and other applicable documentation.

FINDINGS AND RECOMMENDATIONS

Our audit identified issues management should address to better safeguard the City's petty cash funds. These issues are summarized below. While other issues were identified and discussed with management, they were deemed less significant for reporting purposes.

Criteria: The City should have a functioning petty cash system with established policies and procedures for standardization of practices between departments and proper controls to safeguard the City's funds.

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Condition:

- While the City has petty cash procedures within its Operations Manual and a city-wide cash handling policy and procedure, the policies and procedures for petty cash funds are inadequate as they do not address many of the key elements of a proper functioning petty cash system and do not provide adequate guidance to city departments.
- Petty cash handling procedures and documentation requirements vary between city departments.
- The following deficiencies in petty cash handling controls and procedures were identified during the course of our work:

Fund Balances

- Petty cash funds were identified with overages and shortages when completing the unannounced cash counts and reconciliations.

Documentation

- The completeness of documentation of petty cash expenditures varied between departments. Receipts were found with no identification of the individual who made the expenditure, the nature of the expenditure, or the supervisor who approved the expenditure.

Replenishment of Funds

- To replenish petty cash funds, city departments must submit a *Request for Imprest Funds* form. No guidelines exist identifying those who are acceptable applicants and approvers on the form.
- The Treasurer Office cashiers do not perform an evaluation of the appropriateness of who has signed the *Request for Imprest Funds* form prior to distributing funds. The City Treasurer stated that he subsequently reviews these forms and accompanying receipts for reasonableness.
- Petty cash fund custodians are able to approve the replenishment of their funds without supervisory approval.
- Petty cash fund custodians are able to replenish their funds above the authorized amounts.

Treasurer Office Records

- The City Treasurer Office records of petty cash were found to be deficient as follows:
 - The records do not include all existing petty cash funds.
 - The amounts of funds being maintained at city locations were not all accurately identified.
 - The nature of the funds (i.e., petty cash vs. change funds) were not all accurately identified.
 - Custodians of the funds at each location are not identified.

Other

- Certain employees identified petty cash funds that are no longer needed.
- Certain employees were unaware of their authorized petty cash fund amounts, how to handle fund overages/shortages, or how to return unnecessary funds.

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- The City's cash handling policy states that "each Department Director, or their designee (other than a cashier), shall be required to perform and document unannounced inspections of their department's cash handling activities." Despite this policy, many city employees commented that they had never been subject to an unannounced verification of their funds.
- Deficiencies were noted in the safekeeping of certain petty cash funds including the following:
 - Keys to the location of the petty cash funds were found stored in an unlocked drawer.
 - A petty cash fund is stored in an unlocked bag in a vehicle accessible by other employees.
 - A petty cash fund was being stored in a photodeveloping envelope taped under a file cabinet drawer.

Cause:

- Lack of adequate policies and procedures.
- Inadequate oversight and monitoring of petty cash funds.
- Inadequate controls surrounding the administration of petty cash funds.
- Inadequate training of petty cash custodians.

Effect:

- Potential for loss of funds.
- Lack of accountability for funds.

Recommendations:

1. The City Treasurer's Office should create formalized policies and procedures for petty cash funds to bring standardization to the administration and handling of city petty cash funds and to improve the controls surrounding these funds. These policies and procedures should address fund custodian responsibilities, authorized fund expenditures, documentation standards, fund reconciliation requirements, management/supervisor approval requirements, replenishment guidelines, and physical security requirements. The petty cash fund deficiencies noted in this report should be addressed in creating the policies and procedures.
2. The City Treasurer's Office should educate city employees on the new policies and procedures.
3. The City Treasurer's Office should establish procedures to ensure the accuracy of their records of outstanding petty cash funds. The records should include at a minimum the petty cash fund locations, amounts, and custodians. Measures should also be taken to identify unknown petty cash funds that may exist.
4. Considering the availability of the new city P-Card program (city authorized credit cards) for department expenditures, the City Treasurer's Office should take measures to identify unnecessary petty cash funds and further minimize the number of petty cash funds.

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5. The City Treasurer's Office should routinely perform unannounced petty cash fund counts and reconciliations and evaluations of the physical security of the funds throughout the City. In addition, the Treasurer's Office should adopt procedures to ensure department directors or their designees are performing and documenting unannounced inspections of their petty cash funds.

**MANAGEMENT RESPONSES
TO
SPECIAL REPORT
UNANNOUNCED PETTY CASH COUNTS
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RECOMMENDATION 1

Management Plan of Action:

Concur with the Auditor's recommendation. The Treasurer's office will expand the existing Operations Manual petty cash policies and procedures to address the deficiencies noted in the report.

Timetable:

A draft copy of the expanded petty cash policies and procedures will be complete and submitted for Management's review by August 1, 2003.

RECOMMENDATION 2

Management Plan of Action:

Concur with the Auditor's recommendation. The new petty cash policies and procedures identified in Recommendation 1 will be introduced to employees within one month of management's final approval. Also within one month of final approval, educational classes will be conducted for directors and the custodians of petty cash funds. In addition, any new directors or custodians will receive petty cash training from the Treasurer's office.

Timetable:

Within 30 days after City Manager approval.

RECOMMENDATION 3

Management Plan of Action:

Concur with the Auditor's recommendation. Steps will be taken to ensure that more accurate records are maintained. The policies and procedures mentioned in Recommendation 1 will address records maintenance and reconciliation.

Timetable:

The same timetable as Recommendation 1 will be applicable.

RECOMMENDATION 4

Management Plan of Action:

Concur with the Auditor's recommendation. The new policies and procedures addressed in response to Recommendation 1 will include guidelines on the appropriateness of petty cash versus P-Card transactions. Furthermore, the procedure will direct the Treasury Office to periodically review petty cash transactions for their application to the P-Card methodology, and to direct departments and their custodians accordingly. P-card policy and procedures will also be reviewed to ensure that petty cash policies and procedures are in compliance.

Timetable:

The timetable should coincide with Recommendation 1.

RECOMMENDATION 5

Management Plan of Action:

Concur with the Auditor's recommendation. The policies and procedures that are referenced in Recommendation 1 will require that the Treasury Office perform periodic evaluations and audits of all petty cash funds, as well as require department management perform and document unannounced inspections of the petty cash funds in their custody, forwarding the results to the Treasury Office.

Timetable:

The timetable should coincide with Recommendation 1.